Weekly Economic Review

Energy sector ends 2016 on a positive note

Rigs Drilling

Drilling activity gains ground

Drilling activity in Alberta continues to recover. The number of rigs drilling increased year-over-year (y/y) for the first time in two years, reaching 151 in December (Chart 1). On a monthly basis, the number of active rigs rose for the seventh consecutive month, up 40%. Despite the increase, the number of active rigs is still about half of the average level for December over the last five years. Similarly, rig utilization also increased y/y for the third straight month but remains below historical levels.

Metres Drilled

Metres drilled surpasses 2015 level

Consistent with the improvement in drilling activity, metres drilled also grew y/y for the first time since December 2014. In October, the total number of metres drilled rose 18% y/y to 912,063, the highest level since August 2015. The annual growth reflected higher metres drilled for both natural gas (+12% y/y) and conventional oil (+38% y/y), while the decline in metres drilled for bitumen (-4% y/y) eased considerably. Despite the improvement, metres drilled remain down 30% year-to-date. Compared to the previous month, metres drilled were up 44%.

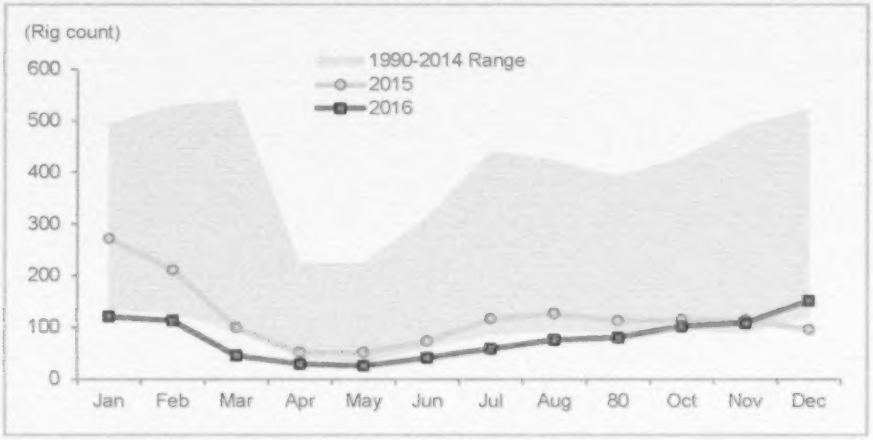
Supply and Disposition

Oil production climbs

Alberta's oil production expanded and surpassed 2015 levels for the second month in a row (Chart 2). In October, Alberta produced 3.1 million barrels of oil per day, up 6% from the same period in 2015. The increase was driven by non-conventional production (+9.6% y/y) as synthetic crude production rose 27% y/y. This outweighed lower conventional production (-10% y/y) which dipped to its lowest point since June 2011. On a monthly basis, Alberta's oil production increased in five of the last six months (+1.6% m/m).

Chart 1: Rigs drilling improves in December

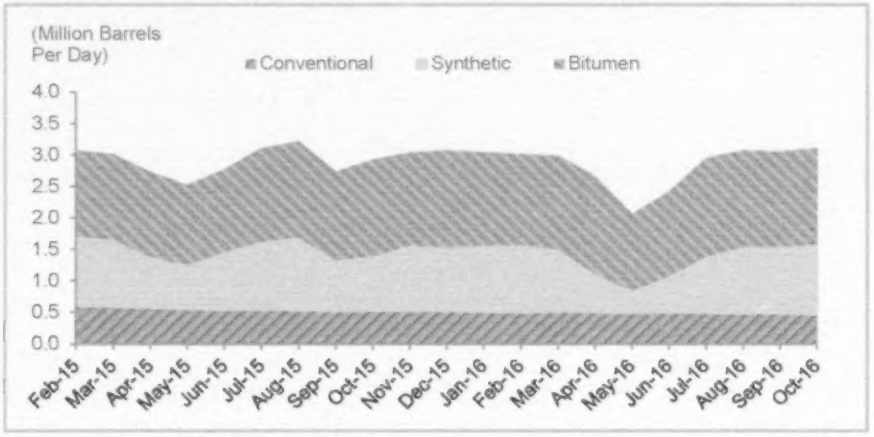
Number of rigs drilling for oil and gas in Alberta



Source: Canadian Association of Oilwell Drilling Contractors

Chart 2: Oil production drifts higher

Total Alberta crude oil production



Source: Alberta Energy Regulator

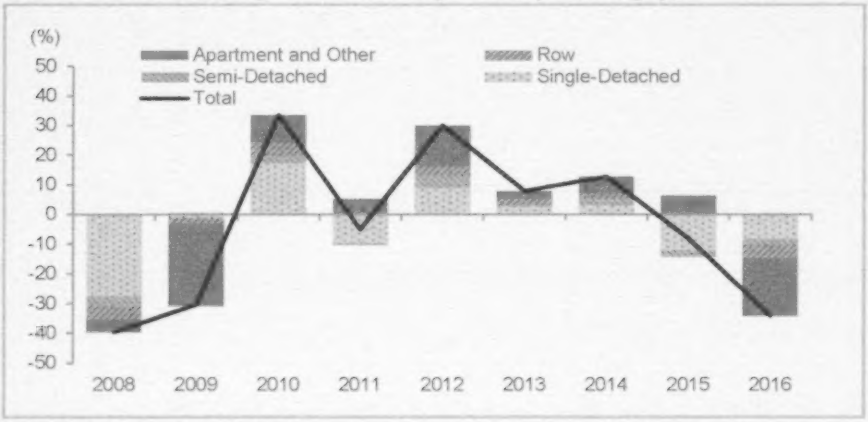
Housing Starts

Housing starts rebound

Despite overall weakness in 2016, Alberta housing starts improved in December following two months of declines. Housing starts increased 6.4% m/m to reach 26,792 units (annualized), the third highest reading in 2016. The monthly gain reflected stronger activity in Calgary (+37.7% m/m) and other urban centres (+30% m/m) which offset continued weakness in Edmonton (-21.9% m/m). Annually, housing starts totaled 24,606 units in 2016, down 34.4% from 2015 level (Chart 3). This reflected weaker activity in both singles (-22%) and multiples (-43%), with the latter pulled back by weaker apartment starts (-51%).

Chart 3: Broad-based weakness in housing starts in 2016

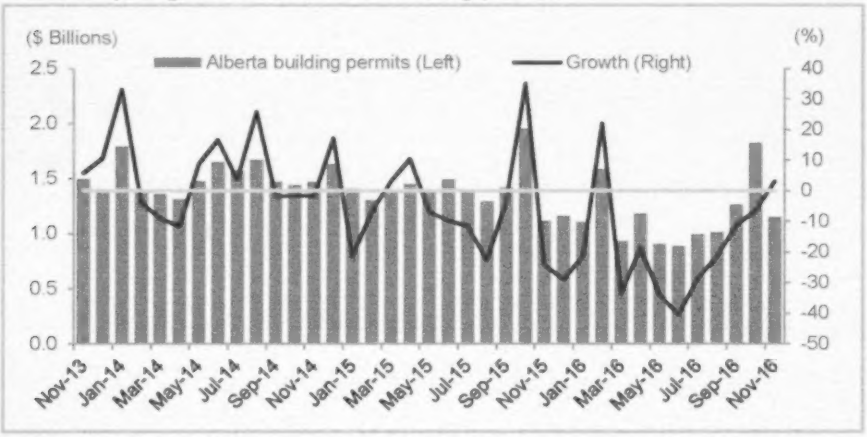
Contribution to annual growth in housing starts by dwelling type



Source: Canadian Mortgage Housing Corporation; 2016 based on preliminary, quarterly data

Chart 4: Building permits retreat sharply in November

Year-over-year growth and value of building permits



Source: Statistics Canada

New Housing Price Index

New home prices tick up

New house prices in Alberta edged up for the first time since May 2016. The New Housing Price Index (NHPI) improved slightly by 0.2% m/m in November, reflecting an uptick in both land (+0.2% m/m) and house (+0.1% m/m) components. Regionally, new house prices improved in Calgary, whereas prices in Edmonton were unchanged. Compared to a year ago, Alberta's overall NHPI remained weak, down 0.8% y/y largely due to a drop in the house component.

Building Permits

Permits remain weak

Building permits pulled back sharply in November. The value of building permits in the province tumbled 37% m/m to $1.1 billion following gains in the previous two months that were fueled by changes to the Alberta Building Code (Chart 4). The decrease was broad-based as both residential (-36% m/m) and non-residential permits (-38% m/m) were down, with the latter mostly impacted by a decline in commercial permits (-51% m/m). On a regional basis, building permits rose in Edmonton (+21% m/m) while they fell in Calgary (-77% m/m). Although the value of overall building permits has increased since the June low due to gains in residential and industrial structures, permit values remain weak and well below pre-recession levels.

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Please see the *Alberta Economy - Indicators at a Glance* for a snapshot of Alberta indicators.